

# Impact of Rising Energy Costs

## Economic effects

Already, rising energy prices are impacting a diverse swath of the U.S. economy and hurting hard-working Americans. According to the Department of Energy, Americans will spend over \$200 billion more on energy this year than they did last year, totaling over one trillion dollars. These energy prices are also costing us jobs. On average, every time oil prices go up 10 percent, 150,000 Americans lose their jobs -- based on the calculations of the Bureau of Labor Statistics and Federal Reserve Board. These energy price spikes are strangling economic growth. According to the Congressional Research Service, every time oil prices go up by 10 percent for a sustained period of time, we lose somewhere between \$80 billion and \$160 billion in economic growth.

**Inflation from higher energy costs is hurting American families' pocket books.** The Federal Reserve has raised short-term interest rates an 11th consecutive time and is expected to raise them again next week. This will increase the cost of car loans, and credit cards for millions of American families. In September, inflation rose to its highest level in 25 years. Wholesale prices rose in September, for the biggest jump in 31 years. Hurricanes Katrina and Rita helped make energy prices soar in September at the fastest rate on record. And that is making it difficult for American families. The percentage of credit card payments that were past due shot up to a record high this summer because surging gasoline prices made it difficult for some people to pay their bills.

**Rising energy costs are driving consumer confidence down, along with consumer spending and income and increasing the trade deficit.** In October, consumer sentiment fell to its lowest level in 13 years. Consumer spending plunged in August at the steepest monthly rate since the 2001 terrorist attacks, and personal income also fell in August. The U.S. trade deficit widened in August to its third-highest level on record as oil import prices hit a new high.

## Schools

School districts and local governments are feeling the pain due to rising energy prices, as are federal agencies themselves. The governor of Georgia closed public schools for two days in order to save fuel. Jackson County, Kentucky students will have 4-day school weeks starting in mid-October to reduce bus runs and save fuel.

## Seniors

According to the Joint Economic Committee, rising energy prices will also eat away at much of the recently announced Social Security COLA. Last week, the Social Security cost-of-living-adjustment (COLA) for next year was announced to be 4.1 percent -- about \$65 per month for the average retired couple. "The cost-of-living-adjustments will provide little relief to retirees and disabled workers this year as higher Medicare premiums and rising home heating costs this winter eat up a larger share of their Social Security checks," said Sen. Jack Reed (D-RJ), Ranking Democrat on the JEC. "President Bush has done nothing to control rapidly rising health care costs or to provide adequate funding for home heating assistance. Unless Congress takes action, many seniors will suffer serious financial hardship next year."

## Airlines

The airline industry estimates it will pay \$9.2 billion more for fuel in 2005 than in 2004, a 103 percent increase from 2001. As Southwest CEO Steve Kelly told the Seattle Times, "We are now facing energy prices that no airline can make money at, at least with today's [ticket prices]."

## **Trucking**

For many motor carriers, fuel can account for up to 25 percent of total operating expenses. The rising cost of fuel has the potential to create a ripple effect through the economy because if prices continue to rise, eventually consumers will likely see higher costs for whatever they are purchasing that is being delivered by truck. This is significant because 80 percent of communities in the U.S. get their goods solely by truck.

A one-penny increase in the price of diesel annualized over an entire year costs our industry an additional \$350 million a year. The trucking industry is on pace to spend \$23 billion more on fuel in 2005 than it spent in 2004.

## **Small Business**

Small businesses have small profit margins. According the National Federation of Independent Businesses, at least one in five small businesses, said they would have to borrow more to keep up with rising energy costs. More than three-fourths of small business owners said that they were lowering their profits or earnings as the first step in to compensate for their energy increases.

## **Farmers and Rural Communities**

**Energy prices are costing farmers billions of dollars.** In the past year, fuel costs have jumped over 21% while fertilizer costs (from natural gas) have gone up by 15 percent. The USDA estimates that the input costs farmers must pay increased by about \$8 billion, with the continued hike in energy prices is being the main factor behind the increase. (Brownfields website, 9/7/05) And the American Farm Bureau estimates that Hurricane Katrina will cost farmers an additional \$500 million for higher fuel costs, including the impact on prices of fertilizer derived from natural gas. (Chicago Tribune, 9/9/05)

**With skyrocketing energy costs farmers are hurt in several different ways.** It costs more to grow and harvest crops, because prices are higher for fertilizer, pesticide, fuel, and lubrication. Energy-related inputs—such as gasoline, diesel fuel, electricity, and fertilizer—make up 15 percent of farm expenses. Gasoline, diesel fuel, natural gas and propane gas power the equipment used to plant, cultivate, water, harvest and deliver crops to market. Poultry and pork producers use propane gas to keep their chicken and hog houses warm, and gasoline and diesel-powered trucks for transporting them. And it reduces the selling price and any profits from their crops, because shippers and food manufacturers are paying more for transportation and manufacturing.

**Farmers are the least able to pass on cost increases** because agriculture is so highly competitive, but higher production costs may inevitably lead to higher grocery prices for all Americans.

**This was a bad year for farmers even before Hurricane Katrina.** Some states in the Midwest had already endured the worst drought in almost 20 years. (New York Times, 9/8/05) Further, farm income was already estimated to decline by nearly \$11 billion because of lower commodity prices.

**High prices at the pump are particularly painful for Americans living in rural communities** because they often must drive long distances every day to get to work, drop their kids off at school, access healthcare and pick up essentials such as prescription drugs. Rural Americans should not have wonder if they can afford groceries after facing higher prices at the pump.